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SIPDIS  
SENSITIVE

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SUBJECT: THE PA 2009 BUDGET, GAZA RECONSTRUCTION, AND CASH

¶1. (U) Summary: In a speech on February 4, Prime Minister Fayyad presented the 2009 budget and outlined the PA's plan for recovery and reconstruction in Gaza. The PM also announced a two-week delay of salary payments, in order to get assistance projects in Gaza underway immediately. The transport of NIS 175m from West Bank banks to Gaza branches scheduled for February 6 was delayed by a legal case filed in an Israeli court. End summary.

#### Budget highlights

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¶2. (U) Fayyad noted that the 2009 budget includes both recurrent and development expenditures. He said that the budget was drafted with linkages to the Palestinian Reform and Development Plan and to the strategic objectives of the line ministries. The overall deficit is estimated at USD 1.65b, down from USD 1.89b in 2008. The budget estimates a reduction of external financing, from USD 1.76b in 2008 to USD 1.15b in 2009, due to significant fiscal retrenchment and to the elimination of wage arrears in 2008. Fayyad also noted that the budget was drafted before the war in Gaza, and therefore does not reflect relief or reconstruction costs. He said he will issue updates based on estimated losses as soon as the studies are completed.

¶3. (U) The budget predicts a 5% growth rate for the Palestinian territory overall in 2009, with zero or negative growth in Gaza, and 8% growth in the West Bank. Fayyad said these figures assume a substantial relaxation of movement and access restrictions in the West Bank, which will allow the private sector to "pick up the slack."

¶4. (U) Fayyad said the PA would not raise taxes, but would increase collection efforts. He stressed the need to reform the "culture of nonpayment," noting that income tax collection was only USD 84m in 2008, or 1.3% of GDP. He also addressed the issue of net lending to municipalities, and said expanded use of pre-paid meters and a shift of collection of bills to commercial companies will help increase revenue.

¶5. (U) Fayyad stressed that the PA cannot depend on the record level of budget support received in 2008. Consequently, he said, the international community should play a more effective role in convincing the GOI to lift economic restrictions in the West Bank and Gaza. Without the resumption of normal movement of people and goods, he said, the private sector will not be able to fulfill its role in generating production and achieving sustainable growth.

#### Reconstruction plans

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16. (U) Fayyad also announced details of the PA's plan for immediate assistance to Gaza during his February 4 speech. He said the PA would provide USD 50m for temporary shelter and emergency needs. Ministry of Planning contacts confirmed USD 30m would go through UNRWA and USD 20m through UNDP. The transfer of USD 20m to UNDP is expected in the coming days. Fayyad also designated USD 11m to repair the electricity network, and USD 6m to repair water wells and wastewater treatment facilities. He also pledged (unspecified) PA support for the revitalization of the economy, including the agricultural sector, and to the Ministry of Health. (Note: The Ministry of Planning is finalizing details of a "Early Recovery and Reconstruction Plan," which will be circulated to the international community on or about February 12.)

17. (SBU) In partnership with around five Palestinian and Arab banks, the PA plans to launch a USD 600m program to repair homes that were damaged or destroyed during IDF operations in Gaza. Fayyad said implementation of the program will require donor funding. Palestine Monetary Authority Governor Jihad al-Wazir said the PA will offer financial grants with a small loan component at a low rate. Bank branches in Gaza would originate and service the loans. Al-Wazir told Econoff February 5 these programs are essential, but will not work unless raw materials, cement, building supplies, and cash are allowed into Gaza.

18. (U) Fayyad called for all Palestinians to address the "humanitarian catastrophe" in Gaza, and thanked the public sector for the donation of one workday's salary to Gaza in January. He announced he will delay payment of January salaries, scheduled for February 5, for a maximum of 14 days,

JERUSALEM 00000259 002 OF 002

and explained this move will allow the PA to focus on "Gaza first, now."

Cash transport delayed by court case  
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19. (SBU) The GOI agreed to allow transport of NIS 175m from West Bank banks to Gaza on February 4. The transport was delayed on February 6 when the Legal Forum for the Land of Israel filed a petition with the High Court of Justice to stop the transfer on the grounds that Gaza is a hostile entity, according to the press. PMA Governor al-Wazir said that, as of 1500 local, the court had not yet issued a decision, and the trucks left Erez crossing. Shortly afterwards, however, al-Wazir received permission, and turned the trucks around. At 1700 local, Bank of Palestine contacts confirmed receipt of NIS 108m in Gaza. Transport of the remaining NIS 67m was reportedly underway, but receipt has not yet been confirmed.

WALLES